



**We have published these draft guiding principles to provide the foundation for our continued work as part of an Emerging Markets Just Transition Investment Initiative that will support our investment decision making, investment approaches and future allocations to emerging markets (EM).**

**These draft principles were developed following the announcement on the 12th May 2022, by twelve UK Pensions Funds (representing 18 million members with assets of £400bn), committed to collaborate to support the transition in emerging markets (EM). As diversified funds we already invest across asset classes in EM but wanted to ensure we have a credible intentional basis to practically support the transition in emerging economies in line with our fiduciary responsibility to provide pensions.**

**As asset owners, we are committed to achieving net zero. However, supporting transition finance in EM involves considerations that differ in nature, scale and complexity than Developed Markets (DM) and need practical solutions. There is no just transition without recognising the complexity of this picture.**

**Challenge:** Current approaches to the global climate transition do not make sufficient allowances for a differentiated pace of change and the varying level of policy and institutional support across EM, nor do they enable a holistic approach to supporting a just transition at an economy-wide level.

**Guiding Principle: Advocacy: Advocate for a fair transition in Emerging Markets. Specifically:**

- **Support real world emissions reductions (Brown to Green):** The full EM just transition picture is not about simply funding renewables, but about transitioning whole energy systems/grids, building new clean energy capacity and transitioning existing high carbon assets to closure in line with a Just Transition. It is about building resilience to adapt to climate change and advocating for a transition in EM that factors in considerations of affordability, availability, economic growth and sustainability
- **Recognise vulnerability to climate impacts:** Develop mechanisms to identify, prioritise and support the transition for countries which risk being impacted by significant extreme weather events that may challenge their ability to meet obligations.
- **Support for economic development and equity:** Advance climate action whilst supporting country level agendas on socio-economic development and equity.
- **Increase transparency:** Transparency around existing and emerging approaches and practices across investors, sharing their practices whilst fostering alignment and collaboration is crucial.
- **Engagement:** Focus on engagement with EM domestic policy initiatives and Multi-lateral Development Banks and Multi-lateral Financial Institutions, to foster better alignment and collaboration on research, challenges and opportunities.

**Challenge:** Existing investor frameworks for the global climate transition do not cover a large part of the EM sovereign and corporate universe. They often lack use of national and regional pathways and lack understanding of nationally defined contributions (NDCs) in associated policies, tools and metrics.

**Guiding Principle: Policies and Implementation: Align our policies and approaches to understand and enable a just transition in Emerging Markets.**

- **Review existing approaches incorporating fossil fuel transition:** Review existing climate change policies, commitments and initiatives to enable a fairer and more nuanced approach for EM.
- **Evolve investor frameworks:** Ensure that the existing investor frameworks (Net Zero Investment Framework, AOA Target Setting Protocol and Net Zero Stewardship) incorporate EM considerations to enable a just transition. This should include the development and implementation of a standalone net zero methodology for sovereigns. Furthermore, stewardship practices should be reviewed and evolve.
- **Need for national and regional pathways:** Develop and factor in the appropriate national and / or regionalised transition pathways (that will be essential to enable a just transition in emerging economies) into EM net zero methodologies, stewardship and solutions.
- **Support nationally determined contributions (NDCs):** Reinforce the role of Government NDCs and their use in implementation. Support the development of essential investor tools such as the Assessing Sovereign Climate Opportunities and Risks (ASCOR) methodology.
- **Revisit implied temperature rise (ITR) metrics to ensure they do not penalise EM:** Ensure that the drive for simplicity across the various net zero alignment metrics especially ITRs do not work against the Just Transition needs and paths of EM countries.

**Challenge:** There is an unequivocal role for more developed market funding from both public and private finance. While DM investors continue to invest in EM navigating political, legal and governance risks, building local expertise and accessing opportunities, there is still a significant financing shortfall and an urgent need to support the EM transition.

**Guiding Principle: De-risking Investments and Capital Allocation: Practically work to de-risk investments in support of intentional allocations within and across asset classes.**

- **Need for a flexible approach:** The principles support collective and bespoke approaches, both existing and new across asset classes namely infrastructure, debt and equities.
- **De-risking Investments:** In line with evolving our policies, there is a need to see scalable EM transition investment vehicles with a risk / return

focus through blended finance, first loss support, guarantees and co-investments.

- **Just Energy Transition Partnerships (JETPs):** G7 Just Energy Transition Partnerships (JETPs) are an encouraging example of structures which can provide an important confidence building measure on the availability of public funding in EM especially key countries with high transition funding needs. Support for JETPs and further roll out can be a useful tool.

#### **Initiative Next Steps:**

- **Seek Feedback:** By publishing these DRAFT principles we do not presume we have framed these correctly and hence seek constructive feedback (please send comments to [pb.stewardship@churchofengland.org](mailto:pb.stewardship@churchofengland.org)) so that they may inform a final version we intend to publish by the end of Q1 in 2023.
- **Finalise Principles:** The finalised principles are intended to be integrated into and inform the way we will understand the transition in EM as well as intentionality in our investment approaches.
- **Evolve Existing Approaches:** Through our respective involvement in Investor Initiatives we intend to seek to evolve investor net zero frameworks to ensure they do not work against the interests of a just transition in emerging markets.
- **Seek Collaboration:** We would invite other Pension Funds that are committed to intentional transition finance in EM to work with us.
- **Develop Opportunities:** We will continue to work over the coming year where appropriate to develop appropriate investments opportunities that can align to this approach.
- **Regularly Update:** During 2023 we will continue to update on our work together with the intention to include, to the extent possible, an outline of how we see our future investments in EM in line with this approach.

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